

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN ADJUSTMENT OF RATES OF THE)
SOUTH SHORE WATER WORKS CO.) CASE NO. 94-188

O R D E R

On May 11, 1994, South Shore Water Works Company ("South Shore") filed its application for Commission approval of proposed water rates. Commission Staff, having performed a limited financial review of South Shore's operations, has prepared the attached Staff Report containing Staff's findings and recommendations regarding the proposed rates. All parties should review the report carefully and provide any written comments or requests for a hearing or informal conference no later than 15 days from the date of this Order.

IT IS THEREFORE ORDERED that all parties shall have no more than 15 days from the date of this Order to provide written comments regarding the attached Staff Report or requests for a hearing or informal conference. If no request for a hearing or informal conference is received, this case will be submitted to the Commission for a decision.

Done at Frankfort, Kentucky, this 19th day of December, 1994.

ATTEST:


Executive Director

PUBLIC SERVICE COMMISSION


For the Commission

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN ADJUSTMENT OF RATES OF THE)	CASE NO.
SOUTH SHORE WATER WORKS CO.)	94-188

STAFF REPORT

Prepared By: Mark C. Frost
Public Utility Financial
Analyst, Chief
Water and Sewer Revenue
Requirements Branch
Financial Analysis Division

Prepared By: Carryn Lee
Public Utility Rate
Analyst, Chief
Communications, Water
and Sewer Rate Design Branch
Rates and Research Division

STAFF REPORT

ON

South Shore Water Works Company

CASE NO. 94-188

On May 11, 1994, the South Shore Water Works Company ("South Shore") filed its application seeking to increase its rates pursuant to 807 KAR 5:001, Section 10. In Order to evaluate the requested increase, the Commission Staff ("Staff") performed a limited financial review of South Shore's test period operations, the calendar year ending December 31, 1993.

The scope of the review was limited to obtaining information as to whether the test-period operating revenues and expenses were representative of normal operations. Insignificant or immaterial discrepancies were not pursued and are not addressed herein.

Mark Frost of the Commission's Division of Financial Analysis performed the limited review on June 22, 1994 and August 11, 1994. Mr. Frost is responsible for the preparation of this Staff Report except for the determination of normalized Operating Revenue; Rate Design; and Attachment D, which were prepared by Carryn Lee of the Commission's Division of Rates and Research.

A comparison of South Shore's actual and pro forma operations is shown in Attachment A. Based upon Staff's recommendations, South Shore's operating statement would appear as set forth in Attachment B.

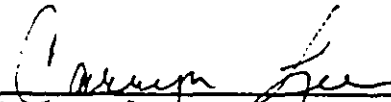
As shown in Attachment C, South Shore determined that its pro forma operations support a revenue requirement of \$460,179, an increase in its revenues from rates of \$138,580. However, that

same attachment reveals that Staff's recommended operations result in a revenue requirement of \$405,216. Therefore, Staff recommends that South Shore increase its annual operating revenues by \$84,565. The rates contained in Attachment D will achieve Staff's recommended level of revenue.

Signatures



Prepared By: Mark C. Frost
Public Utility Financial
Analyst, Chief
Water and Sewer Revenue
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Financial Analysis Division



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Communications, Water and
Sewer Rate Design Branch
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ATTACHMENT A
STAFF REPORT CASE NO. 94-188
SOUTH SHORE'S REQUESTED OPERATIONS

	Application	Pro Forma Adjustments	Pro Forma Operations
Operating Revenues:			
Metered Water Sales	\$307,661	\$0	\$307,661
Other Operating Revenue	10,633	0	10,633
Total Operating Revenue	\$318,294	\$0	\$318,294
Non-Utility Income:			
Other Income	\$2,309	\$0	\$2,309
Coleman Trainer	4,686	(4,686)	0
Sold Assets	14,500	(14,500)	0
City Billing Fee	18,156	(18,156)	0
Interest Income	1,439	(443)	996
Total Non-Utility Income	\$41,090	(\$37,785)	\$3,305
Gross Income	\$359,384	(\$37,785)	\$321,599
Operating Expenses:			
Operation & Maintenance:			
Salaries & Wages - Emp.	\$103,660	\$24,176	\$127,836
Salaries & Wages - Officers	46,250	0	46,250
Emp. Pension & Benefits	16,800	2,400	19,200
Electric Expense	28,021	0	28,021
Gas - Columbia	2,126	0	2,126
Chemicals	9,164	0	9,164
Materials & Supplies	30,491	0	30,491
Licenses, Fees, & Dues	3,670	0	3,670
Miscellaneous	60	0	60
Contributions	100	(100)	0
Penalties	166	(166)	0
Office Supplies & Expense	10,623	0	10,623
Engineering Fees	1,400	5,000	6,400
Accounting Fees	2,400	400	2,800
Legal Fees	4,586	5,000	9,586
Management Fees	2,400	0	2,400
Testing Fees	0	0	0
Rent - Building	9,520	(600)	8,920
Lease - Trucks	9,300	(1,182)	8,118
Transportation	8,476	0	8,476
Ins - Vehicle	4,248	0	4,248
Ins - Gen Liability	4,962	0	4,962
Ins - Workers Comp	7,275	1,535	8,810
PSC Assessment	622	0	622
Total Operation & Maint	\$306,320	\$36,463	\$342,783
Depreciation	28,207	1,651	29,858
Amortization	0	0	0
Taxes Other Than Income Tax	19,989	1,847	21,836
Interest Expense	835	0	835
Total Operating Exp	\$355,351	\$39,961	\$395,312
Net Income	\$4,033	(\$77,746)	(\$73,713)

ATTACHMENT B
STAFF REPORT CASE NO. 94-188
STAFF'S RECOMMENDED OPERATIONS

	1993 Annual Report	Pro Forma Adjustments	Ref	Pro Forma Operations
Operating Revenues:				
Metered Water Sales	\$368,503	(\$61,790)	(A)	\$306,713
Other Operating Revenue	5,744	4,889	(B)	10,633
Total Operating Revenue	<u>\$374,247</u>	<u>(\$56,901)</u>		<u>\$317,346</u>
Operating Expenses:				
Operation & Maintenance:				
Salaries & Wages - Emp.	\$103,660	\$16,824	(C)	\$120,484
Salaries & Wages - Officers	46,250	(16,250)	(D)	30,000
Emp. Pension & Benefits	15,618	3,582	(E)	19,200
Electric Expense	28,021	(743)	(F)	27,278
Gas - Columbia	2,126	(674)	(G)	1,452
Chemicals	9,164	(2,154)	(H)	7,010
Materials & Supplies	46,511	(15,100)	(I)	31,411
Engineering Fees	1,400	(1,400)	(J)	0
Accounting Fees	2,400	0		2,400
Legal Fees	3,186	(3,186)	(K)	0
Management Fees	2,400	(2,400)	(L)	0
Testing Fees	0	1,008	(M)	1,008
Rent - Building	8,560	(760)	(N)	7,800
Lease - Trucks	12,696	(792)	(O)	11,904
Transportation	8,476	(2,280)	(P)	6,196
Ins - Vehicle	4,248	(1,322)	(O)	2,926
Ins - Gen Liability	4,962	886	(Q)	5,848
Ins - Workers Comp	7,275	2,132	(R)	9,407
PSC Assessment	622	0		622
Total Operation & Maint	<u>\$307,575</u>	<u>(\$22,629)</u>		<u>\$284,946</u>
Depreciation	28,207	694	(S)	28,901
Amortization	0	13,315	(T)	13,315
Taxes Other Than Income Tax	19,989	44	(U)	20,033
Total Operating Exp	<u>\$355,771</u>	<u>(\$8,576)</u>		<u>\$347,195</u>
Net Operating Income	<u>\$18,476</u>	<u>(\$48,325)</u>		<u>(\$29,849)</u>
Non-Utility Income	32,654	(29,349)	(V)	3,305
Interest Expense	10,716	(10,716)	(W)	0
Net Income	<u><u>\$40,414</u></u>	<u><u>(\$66,958)</u></u>		<u><u>(\$26,544)</u></u>

A. Metered Water Sales

Reflects Staff's billing analysis, South Shore's current tariffed rates, and elimination of the surcharge allowed in Case No. 89-032. In the test period, South Shore reported surcharge collections of \$61,947.

	<u>Increment</u>	<u>Bills</u>	<u>Gallons</u>	<u>Rate</u>	<u>Revenue</u>
First	1,000 Gallons	3,748	23,995.999	\$4.11	\$103,358
Next	9,000 Gallons	20,084	81,760.565	\$2.03	165,974
Next	20,000 Gallons	1,170	8,324.000	\$1.70	14,151
Next	20,000 Gallons	76	2,029.000	\$1.50	3,044
Over	50,000 Gallons	70	16,996.000	\$1.11	18,866
Subtotal		25,148	133,105.564		\$305,393
Hydrant		240		\$5.50	1,320
Staff's Normalized Revenue from Tariffed Rates					\$306,713
Reported Test-Period Revenue from Rates					368,503
Staff's Recommended Adjustment					(\$61,790)

B. Other Operating Revenue

South Shore included other operating revenues that were not reported in the 1993 Annual Report. Staff Recommends that South Shore's adjustment be accepted.

Reconnect Fees	\$2,600
Service Fees	694
Returned Check Fees	375
New Account Fees	1,220
Test-Period Other Operating Revenue	\$4,889

C. Salaries & Wages - Employee

South Shore adjusted its employee salaries & wages to reflect the new plant operator and the current wage levels. Staff's calculation used the current wage levels, included the new plant operator hired in 1993 and the new maintenance employee hired in 1994, and excluded the salary of the employee laid-off in 1993.

Name	Position	Current Wages	Time Worked during Test Period		Salary
			Regular	Overtime	
D. Moore	Electrician	\$50.00 per Week	52	N/A	\$2,600
C. Kielmar	Office Mgr.	\$6.70 per Hour	2,080.00	0.00	13,936
C. Dickison	Office Em.	\$5.92 per Hour	2,059.00	0.00	12,189
R. Hall	Supervisor	\$10.30 per Hour	2,084.00	4.00	21,486
D. E. Hall	Supervisor	\$10.30 per Hour	2,088.50	0.00	21,424
D. G. Hall	Operator	\$8.50 per Hour	2,113.00	33.00	18,101
T. Pennington	Operator	\$8.50 per Hour	2,080.00	0.00	17,680
R. Porter	Maint. Emp	\$5.85 per Hour	2,080.00	0.00	12,168
L. Hannah	Janitor	\$75.00 per Month	12	N/A	900
Pro Forma Salaries & Wages - Emp					\$120,484
Reported Salaries & Wages - Emp					103,660
Staff's Recommended Adjustment					\$16,824

D. Salaries & Wages - Officer

South Shore provided a list of the duties its owner/manager performed, but it was unable to document the hours Mr. Hannah spent performing those duties. Because South Shore has 7 full-time employees, it requires the services of a full-time manager to oversee their work and to insure that system is operated within the established guidelines. Comparable utilities pay their owner/manager's in the range of \$30,000 for performing the same duties that Mr. Hannah provides, which is the level that Mr. Hannah was paid in the last rate case. Given the lack of documentation, the owner/manager salary has been reduced to \$30,000.

Allowable owner/manager fee	\$30,000
Reported Salaries & Wages - Officer	46,250
Staff's Recommended Adjustment	(\$16,250)

E. Emp. Pension & Benefits

South Shore makes a monthly contribution of \$200 per employee to a self-insurance fund. This adjustment reflects that contribution and the pro forma level of full-time employees.

8 Employees	X	\$2,400	Annual Contribution per Employ =	\$19,200
Reported Employee Pensions & Benefits				15,618
Staff's Recommended Adjustment				\$3,582

F. Electric Expense

Staff analyzed the test period electric invoices to arrive at its pro forma electric expense.

Pro Forma Electric Expense	\$27,278
Reported Electric Expense	28,021
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Staff's Recommended Adjustment	(\$743)
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G. Gas Expense

Staff analyzed the test period Columbia Gas of Kentucky invoices to arrive at its pro forma gas expense.

Pro Forma Gas Expense	\$1,452
Reported Gas Expense	2,126
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Staff's Recommended Adjustment	(\$674)
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H. Chemicals

The accountant made an adjusting journal entry to the wrong account. This adjustment corrects that error.

Reversing Entry of 1992 Bonded Chemical Invoice	(\$2,154)
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I. Materials & Supplies

South Shore proposed to eliminate a charitable contribution and late payment penalty from its test period operations. These adjustments have been made. Capital and nonrecurring expenditures have been removed and depreciated or amortized.

Invoice Date	Description	Amount
Capital Expenditures:		
08-Jan-93	Install pump at Well #4.	(\$392)
15-Apr-93	Install pump at Wells # 1&2.	(639)
16-Aug-93	Install pump at Well #1.	(2,728)
08-Jan-93		
Nonrecurring Expenditures:		
15-Dec-92	Acidize, surge, & clean Well #5.	(4,676)
08-Jan-93	Acidize, surge, & clean Well #9.	(4,172)
03-Aug-93	Recondition pump at Well #6.	(612)
16-Aug-93	Recondition pump at Well #8.	(1,615)
South Shore's proposed adjustments:		
Late Payment Penalty		(166)
Contribution		(100)
		<hr/>
Staff's Recommended Adjustment		(\$15,100)
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J. Engineering Fees

Fees paid to South Shore's engineer were also included in the materials & supplies account. This expense has been removed to eliminate double recovery of the fee.

Reported Engineering Fee	(\$1,400)
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K. Legal Fees

During the test period South Shore incurred legal fees in its attempt to sell its assets to the city. Because these fees are nonrecurring, they should be removed and amortized over a 3 year period for for rate-making purposes.

Reported Legal Fee	(\$3,186)
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L. Management Fees

The management fee is paid to the owner to attend the director's meetings. Since the owner/manager is the sole stockholder, this fee is unreasonable and has been eliminated.

Staff's Recommended Adjustment	(\$2,400)
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M Testing Fees

The current testing fees paid by South Shore.

Bacteriological	\$192	x	4 Quarter =	\$768
Monthly Testing	\$20	x	12 Months =	240
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Staff's Recommended Adjustment	\$1,008
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N. Rent - Building

In 1994 South Shore entered into a new lease for its office. Pro forma rent has been adjust to reflect the reduction in office rent.

\$650 per Month	x	12 Months =	\$7,800
Reported Building - Rent Expense			8,560
			<hr/>

Staff's Recommended Adjustment	(\$760)
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O. Rent - Equipment & Ins - Vehicle

South Shore proposed to increase its vehicle rent expense to reflect its current lease agreements. Insurance expense for vehicles has been adjusted to reflect the premiums paid in 1994 on the leased vehicles and to eliminate insurance on the owner's personal vehicles.

	<u>Rent - Equipment</u>			<u>Insurance Premium</u>
1993 Chevy C1500	\$239	Monthly	\$2,868	\$736
1993 Chevy C1500	\$239	Monthly	2,868	710
1993 Chevy Blazer	\$439	Monthly	5,268	834
1985 Chevy C10			0	332
1967 Ford Dump Truck	\$75	Monthly	900	314
			<hr/>	<hr/>
Pro Forma Rent Fees & Insurance Premiums			\$11,904	\$2,926
Reported Rent Fees & Insurance Premiums			12,696	4,248
			<hr/>	<hr/>
Staff's Recommended Adjustments			(\$792)	(\$1,322)
			<hr/>	<hr/>

P. Transportation

South Shore pays its owner a monthly transportation allowance. Since the owner has unrestricted access to the company autos and credit card, and no reasonable basis for the fee has been demonstrated, the fee has been removed from test period operations.

Staff's Recommended Adjustment	(\$2,280)
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Q. Insurance - General Liability

The current insurance premium that was billed to South Shore.

Pro Forma Insurance Premiums	\$5,848
Reported Rent & Insurance Premiums	4,962
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Staff's Recommended Adjustment	\$886
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R. Insurance - Workers Compensation

South Shore's workers compensation premium based on the pro forma wages recommended herein.

Pro Forma Insurance Premiums	\$9,407
Reported Workers' Compensation Insurance	7,275
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Staff's Recommended Adjustment	\$2,132
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S. Depreciation

Staff has depreciated the test period and post-test period capital expenditures over the appropriate depreciation lives. Because the post-test period expenditures are revenue neutral and were incurred prior to the limited field review, they have been included in Staff's pro forma operations.

<u>Description</u>	<u>Amount</u>	<u>Depreciation</u>	
		<u>Lives</u>	<u>Amount</u>
Test Period Capital Expenditures:			
Install pump at Well #4.	\$392	10	\$39
Install pump at Wells # 1&2.	\$639	10	64
Install pump at Well #1.	\$2,728	10	273
Post-test Period Capital Expenditures:			
Install gas pump.	\$6,358	20	318
Staff's Recommended Adjustment			<u>\$694</u>

T. Amortization

Staff has amortized the test period and post-test period nonrecurring expenditures over the appropriate amortization lives. Because the post-test period expenditures are revenue neutral and were incurred prior to the limited field review, they have been included in Staff's pro forma operations.

<u>Description</u>	<u>Amount</u>	<u>Amortization</u>	
		<u>Lives</u>	<u>Amount</u>
Test Period Nonrecurring Expenditures:			
Acidize, surge, & clean Well #5.	\$4,676	5	\$935
Acidize, surge, & clean Well #9.	\$4,172	5	834
Recondition pump at Well #6.	\$612	3	204
Recondition pump at Well #8.	\$1,615	3	538
Post-test Period Capital Expenditures:			
Recondition Well #5.	\$9,150	5	1,830
Acidize, surge, & clean Well #5.	\$4,770	5	954
Move Well #5 above the flood plain.	\$3,755	5	751
Install pitless adapter at Well #6	\$2,804	5	561
Nonrecurring Legal Fees:			
Rate Case	\$2,900	3	967
Division of Water Violations	\$9,574	3	3,191
Sale of Assets to City	\$5,041	3	1,680
Nonrecurring Accounting Fees:			
Rate Case	\$1,009	3	336
Geological Study	\$10,676	20	534
Staff's Recommended Adjustment			<u>\$13,315</u>

U. Taxes Other Than Income Tax

The current FICA rate combined with the pro forma level of salaries and wages adjustments recommended herein.

Staff's Recommended Salaries & Wages - Employee Adj.	\$16,824
Staff's Recommended Salaries & Wages - Officer Adj.	(16,250)
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Net Salaries & Wages Adjustment	\$574
FICA Rate	7.65%
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Staff's Recommended Adjustment	\$44
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V. Nonutility Income

South Shore proposed to eliminate the following nonrecurring revenues from its nonutility income: the sale of assets; line replacement reimbursements; and sewer billing fees. Staff recommends that South Shore's adjustment be accepted.

South Shore's Pro Forma Non-Utility Income	\$3,305
Actual Non-Utility Income	32,654
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Staff's Recommended Adjustment	(\$29,349)
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W Interest Expense

Eliminates the interest expense that is being recovered through the surcharge collections.

Staff's Recommended Adjustment	(\$10,716)
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ATTACHMENT C
STAFF REPORT CASE NO. 94-188
COMPARISON OF THE REVENUE REQUIREMENT DETERMINATIONS

South Shore's Revenue Requirement Determination:

Operating Expenses	\$395,312
Operating Ratio	88.00%
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Subtotal	\$449,218
Less: Operating Expenses	395,312
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Margin Exclusive of Income Tax	\$53,906
Income Taxes	10,961
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Margin Inclusive of Income Tax	\$64,867
Operating Expenses	395,312
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Requested Revenue Requirement	\$460,179
Less: Gross Income	321,599
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Requested Revenue Increase	\$138,580
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Staff's Revenue Requirement Determination:

Operating Expenses	\$347,195
Operating Ratio	88.00%
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Subtotal	\$394,540
Less: Operating Expenses	347,195
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Margin Exclusive of Income Tax	\$47,345
Times: Gross-up Margin	1.2254902
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Margin Inclusive of Income Tax	\$58,021
Operating Expenses	347,195
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Recommended Revenue Requirement	\$405,216
Less: Operating Revenue	317,346
Other Income	3,305
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Recommended Revenue Increase	\$84,565
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ATTACHMENT D
STAFF REPORT CASE NO. 94-188

Recommended Rates

A limited cost of service analysis was performed on South Shore. The study showed that, in order for South Shore to recover its customer costs and the cost of providing 1,000 gallons of water, the minimum bill should be \$5.06. Since there is no considerable difference between providing water between the 30,000 and 50,000 gallon increments, those have been consolidated into one step.

<u>Increment</u>		<u>Bills</u>	<u>Gallons</u>	<u>Rate</u>	<u>Revenue</u>
First	1,000 Gallons	3,748	23,995.999	\$5.06 Min. Bill	\$127,249
Next	9,000 Gallons	20,084	81,760.565	\$2.53 per 1,000 Gal	206,854
Next	20,000 Gallons	1,170	8,324.000	\$2.10 per 1,000 Gal	17,480
Over	30,000 Gallons	146	19,025.000	\$2.00 per 1,000 Gal	38,050
Subtotal		25,148	133,105.564		\$389,633
Hydrant		240		\$6.95 Min. Bill	1,668
Total					\$391,301